



17555 PEAK AVENUE MORGAN HILL CALIFORNIA 95037

MORGAN HILL

Morgan Hill Civic Center
West Conference Room
17555 Peak Avenue
Morgan Hill, California

Chair
Committee Member
Committee Member
Staff: Finance Director
Assistant Finance Director

Mike Roorda
Dennis Kennedy
Greg Sellers
Jack Dilles
Tina Reza

FINANCE AND AUDIT COMMITTEE

REGULAR MEETING

Wednesday, May 28, 2003

MINUTES

6:05 P.M.

CALL TO ORDER

Chair Roorda and Committee Members Kennedy & Sellers;
Staff: Dilles & Reza

DECLARATION OF POSTING OF AGENDA

In compliance with Government Code 54954.2

PUBLIC COMMENTS

The Morgan Hill Finance and Audit Committee welcomes comments from all individuals on any agenda item being considered by the Committee. In the interest of brevity and timeliness and to ensure the participation of all those desiring an opportunity to speak, comments presented to the Committee are limited to Three Minutes.

BUSINESS:

1. **Approval of minutes for April 16, 2003**

The minutes for April 16, 2003, were approved.

2. **Budget & General Fund Revenue Sources (Discussion)**

Staff indicated that this is another opportunity for the Committee to discuss the budgetary situation and the financial issues facing the City, prior to the next budget workshop. Chair Roorda asked "are we waiting for the other shoe to drop?" He is not sure how to structure all of the City's steps at this point, given the uncertainty concerning the State's potential take-away of additional City monies. Committee Member Sellers indicated that it is smart not to anticipate the bubble for revenues. Once the City gets a handle on the growth in revenues, the gap between revenues and expenditures will go away. Committee Member Sellers indicated that he anticipates the City will be looking at several new businesses soon, so staff should track the revenue effects of such businesses as Ford, Harley Davidson, In and Out, the K-Mart replacement, and the Johnson Lumber expansion. Chair Roorda is optimistic about property taxes.

3. **Fund Reserve and Designation Policy (Discussion)**

Committee Member Sellers indicated that it is appropriate to talk about getting down to a 25% reserve level and about what part of this difference relates to one-time projects. Committee Members indicated that it would be appropriate to use some portion of the reserves for economic development, but do not want to be too speculative. There should be some latitude in the use of reserves for economic development that would allow the City to meet its goals.

Committee Member Kennedy indicated that this committee had originally recommended a 25% reserve and that maybe it is time to revisit that recommended policy. He is okay with reducing the reserves to 25% so long as the amount above 25% is used for one-time expenses and not for new positions, which would mean net ongoing costs. The Aquatics Complex start-up and the Indoor Recreation Center start-up qualify as one-time expenses. Committee Member Sellers indicated that it is important to show the ongoing cost and to ask the community "do you want to pay for that gap?" Economic development costs spent on contract staff or on a consultant may help the City. Chair Roorda indicated, that while there appears to be a desire to use the \$1.9 million in reserves for the transition to a balanced budget, his preference is to get expenditures down first. The last year becomes critical; if the City minimizes cost reductions over the first four years, then, by definition, all costs must occur in the fifth year. However, Chair Roorda indicated that, with the caliber of staff, he believes the City can get through cost reductions and deliver services. The more cuts that are made earlier, then the more dollars the City will have to work with. More subsidies make it harder to balance expenditures with revenues; if the City goes to a 25% reserve, it appears that revenues will not equal expenditures by the end of the 5 year period. He indicated that this is only one framework. It is difficult to make a recommendation at this point given the State's

fiscal uncertainty. The financial picture should be more clear within 6 to 9 months, and consideration of changing the reserve policy should wait until the picture clears.

Committee Member Sellers indicated that the only thing we can be sure of is that the picture will not turn out exactly the way we envision. There are structural issues that the State is considering, such as AB 1221, under which cities would exchange certain sales tax dollars for property tax dollars. In addition, the City Council is talking about potentially placing a ballot measure concerning new revenues.

The Committee agreed that staff should use the terms of the current Committee Members as a checkpoint for the Committee to discuss structural changes, if the City has not heard by then about potential State revenue take-aways or pending PERS retirement system cost issues. A policy statement could then be proposed by the Committee, along with pros and cons about any particular recommendations. Staff responded that the terms of Committee Members would be listed on future Committee agendas so that time frames would be more clear.

4. Investment Policy Update

Staff briefly summarized the staff report and indicated that the revisions to the Policy previously recommended by the Committee were to be recommended for approval by the City Council that night. Certain additional clean-up language had to be, and was, added to eliminate conflicting language in the existing policy, following Chair Roorda's identification of certain inconsistencies.

5. Financial Reporting Requirements Under GASB 34

Ms. Reza gave a very brief staff report. Chair Roorda asked that this item be brought back to the Committee for discussion at the next meeting, if that were acceptable to staff. Staff indicated that would be appropriate.

6. Finance Policy for General Fixed Assets: Minimum Capitalization Threshold & Useful Life

Ms. Reza gave a brief staff report and explained that, by increasing the dollar limit above which fixed assets are capitalized on the City's financial statements, staff would be able to more efficiently implement the new GASB 34 financial statement requirements. She emphasized that staff would still control physical inventories of lesser items, so that adequate controls would still be maintained over fixed assets.

7. Financial and Investment Report for April 2003

This item was not discussed.

8. Future Agenda Items

Chair Roorda asked that the subject of a 2 year budget be agendized for a future meeting.

ADJOURNMENT: 7:00P.M.

NOTICE

AMERICANS WITH DISABILITY ACT (ADA)

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